

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Budget and Finance

A Report to the Governor
and the Legislature of
the State of Hawai'i

Report No. 18-17
November 2018



OFFICE OF THE AUDITOR
STATE OF HAWAII



OFFICE OF THE AUDITOR STATE OF HAWAII

Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawai'i State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawai'i Revised Statutes, Chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

Our Mission

To improve government through independent and objective analyses.

We provide independent, objective, and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management, and expenditure of public funds.

Our Work

We conduct performance audits (also called management or operations audits), which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

We report our findings and make recommendations to the Governor and the Legislature to help them make informed decisions.

For more information on the Office of the Auditor, visit our website:
<http://auditor.hawaii.gov>

Foreword

This is a report of our review of the special funds, revolving funds, trust funds, and trust accounts administered by the State of Hawai‘i, Department of Budget and Finance.

Section 23-12, Hawai‘i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds once every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our sixth review of the revolving funds, trust funds, and trust accounts, and our second review of the special funds of the Department of Budget and Finance.

We wish to express our appreciation for the cooperation and assistance extended to us by the officials and staff of the Department of Budget and Finance.

Leslie H. Kondo
State Auditor

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Chapter 1

Introduction

This review encompasses the special funds, revolving funds, trust funds, and trust accounts administered by the State of Hawai‘i Department of Budget and Finance (B&F). Section 23-12, Hawai‘i Revised Statutes (HRS), requires the Auditor to review each State department’s special, revolving, and trust funds every five years. Specifically, the Auditor’s review must include:

1. An evaluation of the original intent and purpose of each fund, both as expressed by the Legislature and as understood by the expending agency;
2. The degree to which each fund achieves its stated and claimed purposes;
3. An evaluation of the fund’s performance standards as established by the agency; and
4. A summary statement reflecting total fund transactions in the preceding five fiscal years, including the fund balance at the beginning of each fiscal year, total deposits and withdrawals, amount of interest earned, total expenditures made from the fund, and the ending balance for each fiscal year.

Although not mandated by Section 23-12, HRS, we have included trust accounts as part of our review. Trust accounts, like special, revolving, and trust funds, are subject to minimal legislative scrutiny.

This is our sixth review of B&F’s revolving funds, trust funds, and trust accounts.¹ However, it is our second review of their special funds, since Act 130, Session Laws of Hawaii 2013, amended Section 23-12, HRS, to require we review special funds along with revolving funds and trust funds. We last examined these funds and accounts in 2013.

In this report, we reviewed 29 funds and accounts administered by B&F and reported on 20 of them – specifically, 3 special funds, 4 trust funds, and 13 trust accounts.

¹ Prior to 2013, Section 23-12, HRS, did not require reviews of departments’ special funds.

Description of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts

Special funds

Section 37-62, HRS, defines a special fund as one that is “dedicated or set aside by law for a specified object or purpose, but excluding revolving funds and trust funds.” According to the State’s Accounting Manual, special funds are funds used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes.

Revolving funds

Section 37-62, HRS, defines a revolving fund as one “from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is replenished through charges made for the goods or services or through transfers from other accounts or funds.” Activities commonly financed through revolving funds include loan programs, which are initially established by general fund seed moneys and are then replenished through the repayment of loans.

Trust funds

Section 37-62, HRS, defines a trust fund as one in which “designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes.” Trust funds invoke a fiduciary responsibility of state government to care for and use only for those designated to benefit from the funds. A pension fund is an example of a trust fund. Contributions and payments are to be held for the beneficiaries of the pension fund. Another example is tenants’ security deposits, which are held in trust for the future benefit of tenants and landlords. Until forfeited or returned, deposits are the property of the tenants and should be accounted for accordingly.

Trust accounts

The Department of Accounting and General Services (DAGS) defines a trust account as a separate holding or clearing account for State agencies. Trust accounts also serve as accounting devices to credit or charge agencies or projects for payroll or other costs.

Criteria for Reviewing Special Funds, Revolving Funds, Trust Funds, and Trust Accounts

Special and revolving fund criteria

In 2002, the legislature set the requirements for establishing and continuing special and revolving funds. Sections 37-52.3 and 37-52.4, HRS, state that special and revolving funds may only be established by statute. The criteria used to review special and revolving funds are the extent to which each fund:

- Serves a need, as demonstrated by: (a) the purpose of the program to be supported by the fund; (b) the scope of the program, including financial information on fees to be charged, sources of projected revenue, and costs; and, (c) an explanation of why the program cannot be implemented successfully under the general fund appropriation process;
- Reflects a clear nexus between the benefits sought and charges made upon the program users or beneficiaries, or a clear link between the program and the sources of revenue – as opposed to serving primarily as a means to provide the program or users with an automatic means of support, removed from the normal budget and appropriation process;
- Provides an appropriate means of financing for the program or activity that is used only when essential to the successful operation of the program or activity; and
- Demonstrates the capacity to be financially self-sustaining.

Trust fund and trust account criteria

Unlike the requirements for special and revolving funds, the law is silent on whether a trust fund or trust account must be established by statute. The criteria used to review trust funds and trust accounts are the extent to which each fund and account:

- Continues to serve the purpose and intent for which it was originally created; and
- Meets the definition of a trust fund or trust account, respectively.

The first criterion is derived from the objectives of Section 23-12, HRS, which requires the Auditor to evaluate the original intent of each fund and account and the degree to which each fund and account achieves its stated purpose. The second criterion assesses whether a fund is held by the State only for the benefit of those with a vested interest in the assets or an account is held as a separate or clearing account.

Objectives of the Review

1. Identify and review all special funds, revolving funds, trust funds, and trust accounts of B&F.
2. For each special fund, revolving fund, trust fund, and trust account, determine whether the fund or account meets the respective criteria.
3. Provide a five year (FY2014 – FY2018) unaudited financial summary for each fund and account reviewed.

Scope and Methodology

We reviewed all special funds, revolving funds, trust funds, and trust accounts directly administered by B&F during the five-year period under review (FY2014 – FY2018). Funds and accounts included those established by statute as well as by administrative authority.

To identify funds subject to this review, we used a variety of sources, including our prior reviews, accounting reports from DAGS, non-general fund reports, legislative budget briefing documents, and other records. To gain an understanding of fund operations, we reviewed applicable agency administrative rules and interviewed key fiscal and program personnel, as necessary.

We obtained a summary statement for each fund that reflects total fund transactions in the preceding five fiscal years (July 1, 2013 to June 30, 2018), including beginning fund balances, total revenues, amount of interest earned, total expenditures, transfers, and ending fund

balances for each fiscal year. We requested explanations for discrepancies between ending balances for FY2013 reported in our last review and opening balances reported for FY2014. We did not audit B&F's financial data, which are provided for informational purposes only.

Procedures were performed on each fund using relevant criteria as stated above. We reviewed fund information for consistency with the intent of each fund's use and to ascertain the relationship between charges on users and expenditures. We reviewed and compared fund balances to financial activity and projected program needs and standards. We reviewed information on performance standards established for the funds or accounts and performed other procedures as necessary.

Where appropriate, we relied on our prior reports, including Report No. 14-01, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Accounting and General Services, Agriculture, and Budget and Finance*.

Our review was conducted in September and October 2018. Recommendations were made where applicable.

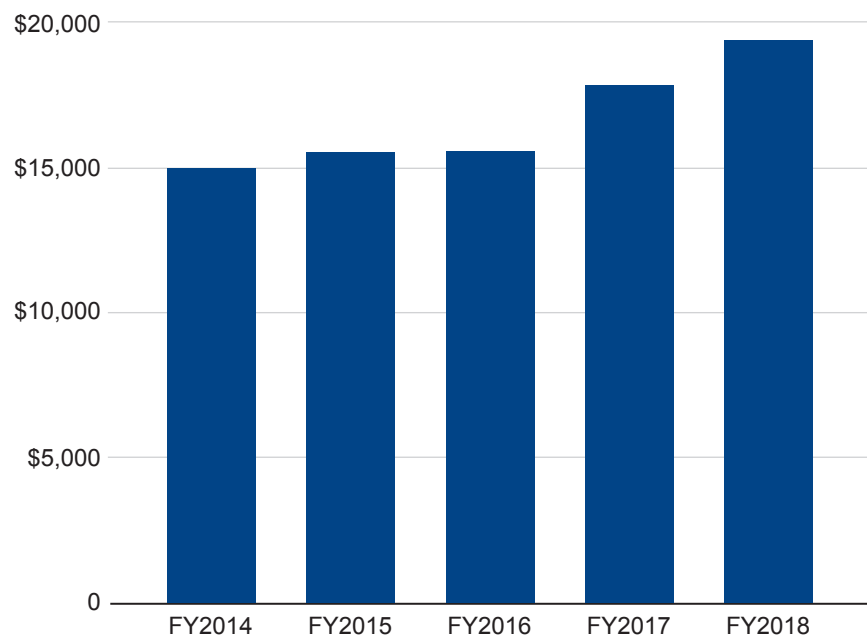
Chapter 2

Department of Budget and Finance

This section presents the results of our review of 3 special funds, 4 trust funds, and 13 trust accounts. B&F did not have any revolving funds during the period of our review. Fund fiscal year-end balances amounted to at least \$15 billion per year during the period reviewed.

Exhibit 2.1 displays the totals for these fund balances at the end of each fiscal year.

Exhibit 2.1
Cash Balances for B&F Non-General Funds*
FY2014 – FY2018 (in millions)



*These cash balances include the Employees' Retirement System of the State of Hawai'i (ERS) trust fund. The fund is accounted for using the ERS' internal accounting system outside of the State's Financial Accounting Management and Information System (FAMIS) and the State Treasury.

Source: Office of the Auditor

Substantial amounts were also collected and expended by the funds annually. In FY2018, the special funds, trust funds, and trust accounts collected more than \$5 billion and spent or transferred more than \$3 billion.

Exhibit 2.2 presents totals for the combined revenue and interest, expenses and transfers, and ending fund balances for the different fund types for FY2018.

Exhibit 2.2
B&F Fund and Account Totals by Type, FY2018

Fund Type	Revenue and Interest	Expenses and Transfers	FY2018 End Cash Balance
Special Funds	\$221,439,000	\$75,346,000	\$458,115,000
Trust Funds and Trust Accounts*	4,786,179,000	3,387,620,000	19,046,638,000
Total	\$5,007,618,000	\$3,462,966,000	\$19,504,753,000

*These fund and account totals include the ERS trust fund. The fund is accounted for using the ERS' internal accounting system outside of FAMIS and the State Treasury.

Source: Office of the Auditor

For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use and whether it meets the definition of a special fund, trust fund, or trust account. We do not assess the effectiveness of programs and their management. The funds are presented in alphabetical order.

Exhibit 2.3 presents B&F's special fund that did not meet criteria and should be closed.

Exhibit 2.3
B&F Fund Not Meeting Criteria

Fund Name	Fund Type	FY2018 Ending Balance (rounded)	No longer serves original purpose and/or does not serve a need	No clear nexus between benefits sought and user charges or a clear link between the program and revenue sources	Inappropriate financing mechanism	Not financially self-sustaining	Does not meet special fund, revolving fund, trust fund, or trust account definition
Public Utilities Commission Special Fund	Special	\$663,000	✓				
Total		\$663,000					

Source: Office of the Auditor

***Emergency and Budget
Reserve Fund
(special fund)***

Section 328L-3, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$24,197	\$83,174	\$90,195	\$100,882	\$311,330
Revenues	57,466	6,680	7,971	208,288*	62,689
Interest	105	341	540	1,488*	1,624*
Expenditures	0	0	0	0	0
Transfers**	1,406	0	2,176	672	15
Ending Balance	\$83,174	\$90,195	\$100,882	\$311,330	\$375,658*
Encumbrances	\$0	\$0	\$0	\$0	\$0

*A 5 percent transfer of State general funds into this fund is required whenever: (1) the general fund revenues for each of two successive years exceed revenues for each of the preceding fiscal years by 5 percent; and (2) the balance of this fund is equal to 10 percent or less of the general fund revenues for the preceding year. FY2016 was the first time that both conditions were met and the transfer was completed in FY2017. FY2017 includes \$51,534,839 of general funds and interest earned while FY2018 includes only interest earned.

**Transfers in are usually from agencies returning unexpended funds from appropriations that were made by the Legislature. In FY2018, the Department of Health incorrectly transferred nearly \$15,000 into this fund which will be returned in FY2019.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Statutorily created in 1999, the fund is used to provide a temporary supplemental source of funding for the State during times of emergency, economic downturn, or an unforeseen reduction in revenue. Revenues are from 15 percent of moneys in the Hawai'i Tobacco Settlement Special Fund, legislative appropriations, and 5 percent of the general fund balance at the close of the fiscal year. Section 328L-3(a)(3), HRS, requires that moneys deposited into this fund from the general fund under the specific transfer conditions shall be kept in a separate and distinct account which resulted in the establishment of the Emergency and Budget Reserve Fund. All interest earned from moneys in the separate account are credited to this fund.

**Employees' Retirement
System of the State of
Hawai'i
(trust fund)**

Section 88-109, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)*

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance**	\$12,311,828	\$14,203,015	\$14,505,465	\$14,069,979	\$15,698,325
Revenues	2,979,219	1,507,567	799,419	2,923,284	2,190,280
Interest	148,841	87,533	111,844	122,655	129,907
Expenditures	(1,236,873)	(1,292,650)	(1,346,749)	(1,417,593)	(1,504,435)
Transfers	0	0	0	0	0
Ending Balance***	\$14,203,015	\$14,505,465	\$14,069,979	\$15,698,325	\$16,514,077
Encumbrances	\$0	\$0	\$0	\$0	\$0

*FAMIS is not the source of the FY2014 – FY2018 financial data but instead from the ERS' internal accounting system.

**The FY2009 – FY2013 financial data in our prior review, Report No. 14-01, also reflected data from the ERS' internal accounting system. The FY2013 ending balance differs from the FY2014 beginning balance because the FY2013 ending balance was not audited as of the date of our last review, while the FY2014 beginning balance reflects the adjusted amount per the ERS' audited financial statements.

***The FY2014 – FY2016 ending balances were audited by KPMG LLP. The FY2017 – FY2018 ending balances were not audited as of the date of our review.

FAMIS reflects a balance of approximately \$32 million with no transactions during our review period. B&F acknowledges that the FAMIS balances are inaccurate, characterizing the fund balances in FAMIS as “paper” amounts. The fund is instead accounted for using the ERS' internal accounting system, outside of FAMIS and the State Treasury. According to B&F, the ERS is required to input transactions into FAMIS so that FAMIS mirrors its financial records.

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally created. Statutorily created in 1925, the ERS was established to provide retirement, disability, and survivor benefits for State employees, teachers, professors, County employees, police officers, firefighters, judges, and elected officials. The ERS continues to administer a retirement, disability, and survivor benefits program for members and their designated beneficiaries. In addition, the ERS collects retirement contributions from Contributory and Hybrid Plan members, provides pre-retirement counseling services, conducts disability hearings and appeals, reviews claims for benefits, and invests funds to help finance the program. As of June 30, 2018, there were over 135,000 participants in the plan, including active members, inactive members, retirees, and beneficiaries. Revenues are from State and County appropriations representing employer contributions, employee contributions, and income from investments. Expenditures include semi-monthly and monthly retirement, disability, and survivor benefits

to qualified retirees and beneficiaries; refunds to terminated members; and administrative, operating, and investment expenses of the trust fund. General fund appropriations are required for the ERS to pay the employer's share of required contributions.

***Hawai'i Children's
Trust Fund
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$8	\$0	\$0	\$0	\$0
Revenues	152	154	149	155	162
Interest	0	0	0	0	0
Expenditures	(160)	(154)	(149)	(155)	(162)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2007, this is a holding account for amounts collected from tax refunds designated for the Hawai'i Children's Trust Fund administered by the Hawai'i Community Foundation (HCF) and held outside of the State Treasury. Pursuant to Section 235-102.5(d), HRS, any individual whose State income tax refund for any taxable year is five dollars or more may designate five dollars of their refund to be donated to various funds. One-third of each donation is deposited into the trust account then disbursed to the trust fund managed by HCF.

***Hawai'i Employer-
Union Health Benefits
Trust Fund (EUTF)
(trust fund)***

Section 87A-30, HRS

Financial Data for Fiscal Year 2014 (in thousands)

	2014
Beginning Balance	\$1,827
Revenues	0
Interest	0
Expenditures*	(1,827)
Transfers	0
Ending Balance	\$0
Encumbrances	\$0

*Transfer to the EUTF – Outside State Treasury trust fund.

This trust fund was closed in FY2014 and the balance transferred to the EUTF – Outside State Treasury trust fund. Statutorily created in 2002, the fund was used to provide health and life insurance benefits for eligible active and retired State and County public employees and their dependents. Revenues were from contributions, interest, dividends, refunds, rate credits, transfers from the EUTF – Clearing Account trust account, vacation transfers, cancelled checks, purchasing card rebates, and other investment returns. The fund also provided health and other benefit plans for approximately 192,000 people through contracted insurance carriers. Administrative fees were collected from employers and employees to provide services needed to administer health and life insurance benefits. Expenditures included administrative and operational expenses, such as payroll, office supplies, in-state and out-of-state travel, consultant services, training, and postage.

***Hawai'i Employer-
Union Health Benefits
Trust Fund (EUTF) –
Clearing Account
(trust account)***

***Administratively
established***

Financial Data for Fiscal Year 2014 (in thousands)

	2014
Beginning Balance	\$113,774
Revenues	0
Interest	0
Expenditures*	(113,774)
Transfers	0
Ending Balance	\$0
Encumbrances	\$0

*Account closed and balance transferred to the EUTF – Clearing Held Outside State Treasury trust account.

This account was closed in FY2014. Administratively created in 2002, the account was used to provide health and life insurance benefits for eligible active and retired State and County public employees and their dependents. The account also provided health and other benefit plans for approximately 192,000 people through contracted insurance carriers. Revenues were from contributions from employee beneficiaries and employers, which included administrative fees, and premiums for health and life insurance carriers, as well as interest, dividends, refunds, rate credits, and other returns. Expenditures included all premiums and claims to insurance carriers, and Medicare Part B reimbursements to retirees and their spouses.

***Hawai'i Employer-
Union Health Benefits
Trust Fund (EUTF) –
Clearing Held Outside
State Treasury
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$24,497	\$182,291	\$164,586	\$175,134	\$191,331
Revenues	1,082,150	979,861	1,141,023	1,173,431	1,240,753
Interest	0	0	0	0	0
Expenditures	(920,856)	(991,866)	(1,049,475)	(1,143,234)	(1,172,915)
Transfers*	(3,500)	(5,700)	(81,000)	(14,000)	(7,600)
Ending Balance	\$182,291	\$164,586	\$175,134	\$191,331	\$251,569
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers to the EUTF – Outside State Treasury trust fund for administrative fees and to the EUTF – Investments Held Outside State Treasury trust account for other post-employment benefits.

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively

created in 2012, the account is used as a clearing account held outside of the State Treasury to provide health and life insurance benefits for eligible active and retired State and County public employees and their dependents. Revenues are from contributions, interest, dividends, refunds, rate credits, and other returns. The account also provides health and other benefit plans for approximately 192,000 people through contracted insurance carriers. Expenditures include all premiums and claims to insurance carriers, and Medicare Part B reimbursements to retirees and their spouses.

***Hawai'i Employer-
Union Health Benefits
Trust Fund (EUTF)
– Investments Held
Outside State Treasury
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$296,132	\$569,805	\$843,767	\$1,278,791	\$1,673,326
Revenues	274,001	274,998	381,925	389,919	519,874
Interest	0	0	0	0	0
Expenditures	(328)	(1,036)	(21,901)	(2,584)	(3,864)
Transfers*	0	0	75,000	7,200	0
Ending Balance	\$569,805	\$843,767	\$1,278,791	\$1,673,326	\$2,189,336
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfer from the EUTF – Clearing Held Outside State Treasury trust account for other post-employment benefits.

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2011, this account enables the EUTF to invest its own funds by going outside the State Treasury to participate in other allowable investment vehicles that provide better returns on investments than what is provided by the State. The account provides health and life insurance benefits for eligible active and retired State and County public employees and their dependents. Revenues are from employer contributions and investment earnings. Expenditures include custodial fees, investment consulting service fees, and investment management fees.

***Hawai'i Employer-
Union Health Benefits
Trust Fund (EUTF) –
Outside State Treasury
(trust fund)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$578	\$672	\$335	\$387
Revenues	1,991	148	241	29	54
Interest	0	0	0	0	0
Expenditures	(4,913)	(5,754)	(6,578)	(6,777)	(7,597)*
Transfers**	3,500	5,700	6,000	6,800	7,600*
Ending Balance	\$578	\$672	\$335	\$387	\$444
Encumbrances	\$1,325	\$1,616	\$905	\$568	\$357

*The FY2018 expenditures and transfers each exceed the amounts in FAMIS by \$86,837. According to B&F, the \$86,837 difference represents the expenditure and transfer for an appropriation for personnel services to convert EUTF employees from exempt to civil service.

**Transfers from the EUTF – Clearing Held Outside State Treasury trust account for administrative fees.

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally created. Administratively created in 2002, the fund is used to provide health and life insurance benefits for eligible active and retired State and County public employees and their dependents. Revenues are from contributions, interest, dividends, refunds, rate credits, transfers from the EUTF – Clearing Held Outside State Treasury trust account, vacation transfers, cancelled checks, purchasing card rebates, and investment returns. The fund also provides health and other benefit plans for approximately 192,000 people through contracted insurance carriers. Administrative fees are collected from employers and employees to provide services needed to administer health and life insurance benefits. Expenditures include administrative and operational expenses, such as payroll, office supplies, in-state and out-of-state travel, consultant services, training, and postage.

***Interest Earned – Bond
Investment Pool
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$56	\$1	\$25	\$25	\$604
Revenues	2	24	0	579	5,297
Interest	0	0	0	0	0
Expenditures	(36)	0	0	0	(590)
Transfers*	(21)	0	0	0	0
Ending Balance	\$1	\$25	\$25	\$604	\$5,311
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfer to the Interest Earned – Investment Pool trust account.

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2001, the account holds moneys earned from the State Treasury Centralized Bond Pool investments until moneys are distributed into the general fund and to revenue bond agencies' various special funds. The Centralized Bond Pool invests general obligation and revenue bond funds held in the State Treasury. Revenues are from interest earnings on short-term investments of State bond fund moneys. Expenditures include distributions of the interest earnings to participating funds.

***Interest Earned –
Investment Pool
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$(23)	\$0	\$95	\$4	\$6,084
Revenues	2	95	165	6,080	43,177
Interest	0	0	0	0	0
Expenditures	0	0	(256)	0	(6,081)
Transfers*	21	0	0	0	0
Ending Balance	\$0	\$95	\$4	\$6,084	\$43,180
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfer from the Interest Earned – Bond Investment Pool trust account.

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2000, this account holds moneys earned from the State Treasury Centralized Pool investments until moneys can be distributed into the general fund and to various participating departments' special and trust

funds. Revenues are from interest earned on short-term investments of State moneys. Expenditures include distributions of the interest earnings to the general and departmental funds participating in the investment pool.

***Mass Transit Special Fund
(special fund)***

Section 248-2.7, HRS

Financial Data for Fiscal Year 2018 (in thousands)

	2018
Beginning Balance	\$0
Revenues	157,126
Interest	0
Expenditures	(75,332)
Transfers	0
Ending Balance	\$81,794
Encumbrances	\$0

This fund meets the criteria of a special fund and serves the purpose for which it was originally created. The fund was created in 2017 as part of the First Special Legislative Session but it was not established until January 1, 2018. The fund is used to collect a portion of the Transient Accommodations Tax (TAT) and surcharge on State tax revenues beginning January 1, 2018 to December 31, 2030, to provide a source of funding for capital costs incurred by the Honolulu Authority for Rapid Transportation (HART) in its design and construction of the rail project. HART is a semi-autonomous government unit of the City and County of Honolulu (County) created to develop and construct the rail system.

Revenues are from the TAT and surcharges. All interest earned on the moneys in this fund are credited to the general fund. Expenditures to the County are for reimbursement of capital costs incurred by HART as allowed under Section 46-16.8(e), HRS. The Director of Finance shall disburse moneys from the fund to the County that are certified by the Comptroller as an acceptable use of the funds.

**Overpayment
Collections to Office
of Hawaiian Affairs –
Ceded Lands
(trust account)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$1,599	\$5,007	\$8,491	\$3,846	\$11,769
Revenues	4,098	3,484	1,822	7,923	2,206
Interest	0	0	0	0	0
Expenditures	(690)	0	(6,467)	0	0
Transfers	0	0	0	0	0
Ending Balance	\$5,007	\$8,491	\$3,846	\$11,769	\$13,975
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2012, the account is used as a holding account for overpayment refunds from the Office of Hawaiian Affairs (OHA) for ceded lands and to make up shortfalls in meeting the State's obligation to OHA. Act 178, SLH 2006, provides for \$3,775,000 to be transferred from departments or agencies that collect receipts from lands within the public land trust. Executive Order 06-06 delineates the procedures for these quarterly transfers and requires that, if receipts transferred to OHA exceeds \$3,775,000, B&F must notify OHA. OHA must transfer the overpayment into a carry-forward trust holding account established by the Director of Finance.

**Public Utilities
Commission Special
Fund
(special fund)**

Section 269-33, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$15,108	\$16,137	\$9,929	\$663	\$663
Revenues	22,924	22,425	0	0	0
Interest	0	0	0	0	0
Expenditures	(21,864)	(24,211)	(5,794)	0	0
Transfers*	(31)	(4,422)	(3,472)	0	0
Ending Balance	\$16,137	\$9,929	\$663	\$663	\$663
Encumbrances	\$1,666	\$2,972	\$0	\$0	\$0

*B&F and PUC were unable to reconcile transfers. Pursuant to Section 269-33, HRS, PUC transferred excess moneys to the general fund in FY2014 (\$12,157,000), FY2015 (\$13,471,000), and FY2016 (\$5,780,000).

This fund does not meet the criteria for a special fund because it no longer serves the purpose for which it was originally created. Statutorily created in 1994, the fund was administered by the Public Utilities Commission (PUC) and used to pay for all operating expenses of the PUC and the

Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs (DCCA), and for costs incurred by DCCA to fulfill its limited oversight and administrative support functions. Section 269-33, HRS, provides that all moneys in excess of \$1 million remaining in the fund at the end of each fiscal year shall lapse to the credit of the general fund.

In FY2016, pursuant to Act 108, SLH 2014, the PUC was placed within DCCA for administrative purposes only. The moneys in the fund were transferred to DCCA to effectuate the transfer from B&F. The PUC has stated that it no longer uses the fund, and B&F asserted that there has been no transactional activity in this fund since the PUC's transfer to DCCA. The fund should be closed and the remaining balance lapsed to the general fund.

***Special Purpose
Revenue Bond –
Security Deposit
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$15	\$1	\$0	\$5	\$9
Revenues	1	1	5	4	1
Interest	0	0	0	0	0
Expenditures	(15)	(2)	0	0	0
Transfers*	0	0	0	0	0
Ending Balance	\$1	\$0	\$5	\$9	\$10
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers to the general fund are recorded as non-revenue receipts, residual equity transfers. The FY2018 ending balance of \$10,000 was transferred to the general fund on July 31, 2018.

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 1989, the account is used to reimburse the State for costs and out-of-pocket expenses incurred relating to issuing special purpose revenue bonds for projects. Such bonds are issued by B&F to help projects finance the construction of qualified facilities. Non-refundable security deposits are transferred to the general fund when bond issuance proceedings are complete.

***Taxes Payable to
Counties – Fuel Tax
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$10	\$0	\$0	\$0	\$0
Revenues	73,989	74,223	78,677	81,278	86,946
Interest	0	0	0	0	0
Expenditures	(73,999)	(74,223)	(78,677)	(81,278)	(79,392)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$7,554
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2006, the account is used as a clearing account for liquid fuel tax collections pursuant to Section 243-6, HRS. The moneys are held in the account until it can be distributed monthly to the Counties. Revenues are from liquid fuel tax collections by the Department of Taxation on behalf of the various Counties.

***Taxes Payable to
Counties – General
Excise Tax Surcharge
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$50,356	\$0	\$0	\$0	\$53,473
Revenues	242,657	248,518	259,248	248,158	305,215
Interest	0	0	0	0	0
Expenditures	(293,013)	(248,518)	(259,248)	(194,685)	(358,688)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$53,473	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2007, this is a holding account for the general excise tax surcharge for mass transit funds collected pursuant to Section 248-2.6, HRS. The Director of Finance deducts 10 percent of the gross proceeds to reimburse the State for the cost of assessments, collection, and disposition of the City and County of Honolulu (County) surcharge. The amounts retained are general fund realizations of the State and any remaining balance is paid on a quarterly basis to the County. This account is used as a clearing account into which tax collections are held until distributed to the County.

***Taxes Payable
to Counties –
Hawai‘i Tourism
Authority Transient
Accommodation Tax
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Revenues	208,000	218,000	213,000	216,000	216,000
Interest					
Expenditures	(208,000)	(218,000)	(213,000)	(216,000)	(216,000)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2005, the account is a clearing account for monthly TAT funds owed, per various statutes, to each of the Counties and the Hawai‘i Tourism Authority (HTA). Distributions by the State Treasury are made monthly to HTA and semi-annually to the Counties. The account holds tax collections until distributed to HTA and to the Counties.

***Taxes Payable to Other
State Agencies
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$0	\$223	\$0	\$0
Revenues	69,558	72,967	17,021	16,860	16,499
Interest	0	0	0	0	0
Expenditures	(69,558)	(72,744)	(17,244)	(16,860)	(14,973)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$223	\$0	\$0	\$1,526
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2007, this is a holding account for the cigarette tax increase pursuant to Act 316, SLH 2006. This account is used as a clearing account into which tax collections are held until distributed monthly to the University of Hawai‘i (UH) for special funds it administers, including the Hawai‘i Cancer Research Special Fund per Act 315, SLH 2006, and the UH Energy System Development Special Fund per Act 73, SLH 2010. Revenues are from the excise tax for each cigarette sold, used or possessed by a wholesaler or dealer.

**Temporary Deposits –
Budget and Finance
(trust account)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$6	\$6	\$6	\$6	\$6
Revenues	0	0	0	2	0
Interest	0	0	0	0	0
Expenditures	0	0	0	(2)	0
Transfers	0	0	0	0	0
Ending Balance	\$6	\$6	\$6	\$6	\$6
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created prior to 1980, this account holds temporary deposits related to vendor bids, performance bonds, salary overpayments, and other miscellaneous temporary deposits.

**Unclaimed Property
Trust Fund
(trust fund)**

Section 532A-26, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$21,658	\$18,434	\$20,215	\$38,698	\$12,939
Revenues	24,831	29,645	30,581	26,825	29,807
Interest	0	0	0	0	0
Expenditures	(28,055)	(27,864)	(12,098)	(52,584)	(23,098)
Transfers	0	0	0	0	0
Ending Balance	\$18,434	\$20,215	\$38,698	\$12,939	\$19,648
Encumbrances	\$73	\$70	\$7	\$33	\$28

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally created. Act 55, SLH 2008, repealed the previous Uniform Unclaimed Property Act, which statutorily created this fund in 2000, and re-established the fund in 2009. This fund is used to collect remittances of unclaimed property and is the source from which claims for return of abandoned property are paid. At the end of each fiscal year, all unencumbered and unexpended moneys in excess of \$1.3 million are transferred to the general fund and are included as an expense in the subsequent fiscal year. The State serves as custodian of all unclaimed property by annually receiving reports of abandoned property, reporting such property to the general public, and safekeeping all property until the rightful owner files a claim. The fund holds these moneys until the owner files a claim and provides evidence of ownership.

Chapter 3

The Department of Budget and Finance Did Not Report Non-General Funds As Required by Law

As we reported in our *Study of the Transfer of Non-general Funds to the General Fund*, Report No. 12-04, special, revolving, and other types of non-general funds collectively represent about half of the State's operating budget – moneys that are not subject to the same level of legislative scrutiny as the general fund. Accurate and complete reporting of all funds, as required by law, would greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility. Fund reports are one of the primary means through which the Legislature tracks non-general funds. The reports are used to monitor fund balances and identify excess moneys for possible transfer to the general fund.

Section 37-47, HRS, requires departments to submit to the Legislature an annual report of each non-general fund account including information such as the intended purpose of the fund, current program activities supported by the fund, and financial data. The Director of Finance annually issues a memorandum requesting all departments to complete and submit Form 37-47, *Report on Non-General Fund Information*, to the Department of Budget and Finance for each of their non-general funds. The Department of Budget and Finance compiles a report of all non-general fund accounts and submits it to the Legislature prior to the start of each legislative session.

Section 37-52.5, HRS, requires the Judiciary and any department that administratively establishes a new fund or account to submit a report to the Legislature. The report must be filed within 30 working days of a fund or account's creation and should include a justification for the fund or account and identification of its sources of revenue. In addition, prior to the start of each legislative session, the law also requires each department to submit to the Legislature a listing of all administratively established funds or accounts along with a statement of their revenues, expenditures, encumbrances, and ending balances for each fund or account.

During our review of B&F's non-general funds, we noted non-compliance with statutory requirements to report financial activity and balances, as required by Section 37-47, HRS, as well as fund information for administratively established funds and accounts under Section 37-52.5, HRS.

As shown in Exhibit 3.1, B&F had non-general funds with balances totaling more than \$1.8 billion and administratively created non-general funds with balances totaling more than \$18.4 million that were not reported to the 2018 Legislature as required by Sections 37-47 and 37-52.5, HRS, respectively.

Exhibit 3.1

B&F Non-General Funds and Administratively Created Funds Not Reported to the Legislature

Fund Name	Fund Type	HRS 37-47 (Non- General)	FY2017 Ending Balance (rounded)	HRS 37-52.5 (Admin Created)	FY2017 Ending Balance (rounded)
EUTF - Clearing Held Outside State Treasury	Trust Account	✓	\$191,331,000		
EUTF - Investments Held Outside State Treasury	Trust Account	✓	1,673,326,000		
EUTF - Outside State Treasury	Trust Fund	✓	387,000		
Interest Earned - Bond Investment Pool	Trust Account			✓	604,000
Interest Earned - Investment Pool	Trust Account			✓	6,084,000
Overpayment Collections to Office of Hawaiian Affairs - Ceded Lands	Trust Account			✓	11,769,000
Public Utilities Commission Special Fund	Special	✓	663,000		
Temporary Deposits - Budget and Finance	Trust Account	✓	6,000	✓	6,000
Total			\$1,865,713,000		\$18,463,000

Source: Office of the Auditor

Office of the Auditor's Comments on the Affected Agency Response

Comments on Agency Response

We transmitted a draft of this review to B&F on October 25, 2018.
B&F provided its written response to the draft report on October 31, 2018
(Attachment 1).

B&F agreed with our findings and will take appropriate action to close
the special fund that did not meet criteria. B&F will also comply with
reporting requirements.

DAVID Y. IGE
GOVERNOR



LAUREL A. JOHNSTON
DIRECTOR

KEN N. KITAMURA
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

October 31, 2018

Leslie H. Kondo, State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96814

Dear Mr. Kondo

The following are the Department of Budget and Finance's (B&F) comments in response to your October 25, 2018 letter relating to the draft report, Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Budget and Finance:

Finding: The Department of Budget and Finance did not Report Administratively Established Non-General Funds as required by Law.


Comments: We acknowledge the findings and will take the appropriate measures to ensure compliance. Specifically our B&F staff will work with all of our programs and attached agencies to identify all funds and accounts and develop a checklist to ensure that the annual non-general fund report submissions are complete.

Finding: The Public Utilities Commission (PUC) was transferred to the Department of Commerce and Consumer Affairs (DCCA) for administrative purposes pursuant to Act 108, SLH 2014. Remaining PUC Special Fund balances that have shown no activity from FY 2017 should be lapsed to the General Fund.

Comments: The Department acknowledges the findings and will contact and discuss with the PUC in regards to closing this special fund account and transferring the funds as noted in the Auditor's Report.

Thank you for the opportunity to comment on the draft report. Please contact me if you have any questions or your staff may contact Mr. Ken Kitamura at 586-1516 or via email at Ken.N.Kitamura@hawaii.gov.

Sincerely,


Laurel A. Johnston
Director of Finance

No. 1 Capitol District Building, 250 S. Hotel Street, Honolulu, Hawaii 96813